CHAPTER 14

PROGRAM INCOME AND REVOLVING LOAN ACCOUNTS

Introduction

This chapter discusses what Program Income (PI) is, how it may be used, and how to establish a Program Income Reuse Plan with its associated Revolving Loan Accounts (RLAs) funded with PI. Before work can be started on any PI-funded activity, **Department approval must be obtained**. Such approval will be conditioned upon eligibility of the activity, including the activity meeting a CDBG national objective, and compliance with the applicable federal overlay requirements, including NEPA environmental review. Additionally, PI must be expended in one of the three ways detailed in this chapter beginning on page 14-2.

Keeping track of PI and PI-funded projects can become very complicated if the jurisdiction chooses to take advantage of the many expenditure options available. Unless the jurisdiction has ample staff resources, we recommend limiting the use of PI to a number of activities and/or projects that can be effectively administered.

What is Program Income?

Sources of Program Income

Program Income is defined as gross income received by a recipient (or subrecipient) that has been directly generated from the use of CDBG funds, and includes the following:

- Payments of principal and interest on loans made using CDBG funds. For any program income-generating activities that are only partially assisted with CDBG funds, such income should be prorated to reflect the actual percentage of CDBG participation. For example, if a loan was made with 50 percent local funds and 50 percent CDBG funds and a $100 payment is received, $50 would be CDBG program income.
- All interest earned on PI.
- Net proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG funds.
- Gross income from the use or rental of real property that has been acquired, constructed or improved with CDBG funds and that is owned in whole or part by the participating jurisdiction or subrecipient.

Note: Until such time as the above sources of revenue (net the costs of obtaining the revenue) reach, or are expected to reach, $25,000 in a single FY (July 1-June 30), they are classified as **Program Revenue (PR)** rather than PI. If the $25,000 threshold is reached during the FY, all such income is classified as PI. If the $25,000 threshold is not reached during the FY, then the revenue may be considered "Miscellaneous Revenue", as below.

What is Not Considered Program Income?

- If total PR from all CDBG activities is less than $25,000 for an entire fiscal year, this is considered "Miscellaneous Revenue" (as discussed above). MR may be spent on any local activity, not just CDBG-eligible activities. However, the jurisdiction must still complete and submit Quarterly and Annual Program Income Reports, as described in Chapter 10 of this manual, if the jurisdiction could potentially receive any PI. Note that if the PR is over $25,000, all such revenue is PI, including the first $25,000.
- Costs that are incidental to the collection of PR may be deducted from the gross PR to determine net PR.
- PI does not include interest earned on open grant advances from the Department. Any interest earned on grant advances must be forwarded to the Department (see Chapters 9 and 13).
- Revenue from 1992 CDBG grants, or earlier, may not be PI if there has been a subsequent gap between open grants. Jurisdictions must provide documentation of such funding gaps and receive written approval from the Department before ceasing to report the revenue from such pre-1993 grants. PI generated from 1993 or later grants, regardless of gaps between open grants, continue to be defined as PI.
- Unspent CDBG loan/grant funds (for example, if a grantee made a $40,000 loan to rehabilitate a dwelling but the final cost to rehabilitate the dwelling was $35,000, the $5,000 difference would reduce the $40,000 loan to $35,000 and the $5,000 would be returned to the grantee loan pool as unspent funds, not program income.)
- Net proceeds from the disposition by sale or long-term lease of real property acquired or improved with CDBG funds if the disposition occurs five years after grant closeout.

WHAT SHOULD BE DONE WITH PROGRAM INCOME?

PI retained by the jurisdiction must be substantially expended by the end of the program year. A jurisdiction **cannot** accumulate excessive amounts of PI. Program Income must either be returned to the Department or be expended in any of the following three ways:

1. Expended for the same activity that is funded under an open CDBG grant prior to drawing down additional federal funds;	If you have an open CDBG grant, you may spend PI on the activity or activities specified in the open grant, but the PI must be spent first, before the open grant funds. **What is the process for spending PI in this Way?** In order to spend PI in this way your PI Reuse Plan should specify this option in addition to spending PI through RLAs. Once the special conditions for the grant activity have been cleared by the Department the jurisdiction may proceed to spend PI for this activity. **Reporting** In addition to the required Quarterly and Annual PI Reports, the quarterly Financial and Accomplishment Report (FAR) required for the open grant includes the grantee's reporting of the use of PI on activities associated with that open grant. The accomplishments (units, jobs, beneficiaries) must be reported on the annual Grantee Performance Report (GPR) for the open grant.
2. Amended (added) into an open CDBG grant for expenditure on an activity not already included in that grant;	A jurisdiction may request: (a) to include, in a CDBG Program funding application, the use of PI funds for a different activity than the grant request, or; (b) that an existing grant agreement be amended to include a CDBG activity not already included in the grant agreement. If requesting to amend a grant agreement as in (b), above, the term of the grant to be amended must be of sufficient length to carry out the PI-funded activity. A jurisdiction may want to exercise this option when it receives a large amount of PI, such as from a loan paying off or a CDBG-financed asset being liquidated. **What is the process for spending PI in this Way?** Submit the following to your CDBG Representative and obtain the CDBG Program's approval to begin the activity: ▪ Before any work can be started on any CDBG- or PI-funded activity, Department approval must be obtained for compliance with all applicable federal overlay requirements, e.g. NEPA environmental review.

- If amending an open grant to include a different activity the jurisdiction must submit for approval:
  - A resolution from the local governing body approving the amendment of the open grant;
  - A budget showing all sources and uses of funds for the activity, including CDBG
  - Documentation showing that a citizen participation public hearing was held and was properly noticed;
  - An activity description, including a narrative description of the activity and its eligibility under State or Federal law, and the national objective that will be met by the activity;
  - Authorization, in the form of a resolution, from the local governing body allowing amendment to the PI Reuse Plan if the Reuse Plan does not already allow PI to be used for an eligible activity which is added to an open grant; and

Reporting

In addition to the required Quarterly and Annual PI Reports, quarterly Financial and Accomplishment Reports (FARs) required for each open grant must include the grantee's reporting of the use of PI on any activities amended into that open grant. The accomplishments (units, jobs, beneficiaries) must be reported on the annual Grantee Performance Report (GPR) for the open grant.

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3. **Expended** through a Revolving Loan Account as described in a Program Income Reuse Plan.

A Revolving Loan Account (RLA) is a separate fund with a set of accounts, which are independent of other program accounts. It is established for carrying out only one specific activity (e.g., loans for housing rehabilitation, or homeownership assistance, or business loans), which, in turn generates repayments to the fund for use in continuing to carry out that same activity. Each RLA must also be "substantially revolving" (see next paragraph), be CDBG-eligible, and meet a CDBG national objective (benefit to at least 51% TIG, removal of slums and blight, or urgent need.)

The most common use of PI is placement in a Revolving Loan Account (RLA). Each RLA must be "substantially revolving," meaning that at least 51 percent of the RLA expenditures must be for loans. Amounts up to the remaining 49 percent may be spent on non-revolving activities, such as general administration, activity delivery, and grants for the same activity as the RLA. Most Reuse Plans identify more than one RLA, for uses such as housing rehabilitation assistance, homebuyer assistance, and business assistance.

If the Revolving Loan Account (RLA) funds are expended on the same type of activity as an open grant (e.g., both the RLA and the open grant are funding business loans in the jurisdiction), then the RLA funds must be expended before drawing down funds under the open grant agreement. This situation may be avoided by defining the activity of an RLA to be different than activities funded by open grants, such as for a target area outside of that of any open grant, or for a different clientele than under open grants.

What is the process for spending PI in this Way?

You must have a locally adopted and CDBG-approved PI Reuse Plan in place, and before any work can be started on the activity, Department approval must be obtained for compliance with all applicable federal overlay requirements, e.g. NEPA environmental review.

Reporting

The required Quarterly and Annual PI Reports will capture PI expended through RLAs. The accomplishments (units, jobs, beneficiaries) must be reported on the annual Grantee Performance Report (GPR) for the Revolving Loan Account.

Administrative Expenses

Up to 18 percent of the total PI expended during a program year may be used for CDBG General Administration (GA) expenses.

Program Income Reuse Plans

What is a Program Income Reuse Plan?

A Program Income Reuse Plan (PI Reuse Plan) primarily governs the jurisdiction's ongoing use of PI expended for activities other than those funded under open grants. The plan identifies all proposed uses of the PI and specifies the jurisdiction's intent to comply with all CDBG program requirements.

The Reuse Plan substitutes for an ongoing contract with the Department. The Department closes out its grants to local governments upon satisfactory completion of the terms and conditions of the grant agreement (contract). However, Federal statute requires the Department track PI beyond the closeout of the grant that generated the PI. To that end, the Reuse Plan satisfies the Federal requirement that local governments obtain advance State approval of a local plan to expend PI, in the absence of a more formal contractual relationship.

The proposed reuses of the PI are disclosed in the Reuse Plan and a public hearing is held to allow for meaningful local citizen comment. The proposed reuses of PI, as well as the required annual reports on the expenditure of PI (i.e., the Annual Grantee Performance Reports), should always be included in the jurisdiction's citizen participation annual public hearings and notices related to CDBG.

The Reuse Plan must specify all revolving and non-revolving uses of funds including non-revolving uses within the RLA, e.g., general administration, or any grants or activity delivery costs associated with the CDBG activity specified for the RLA.

When to Submit a Reuse Plan

If you choose to retain PI and expend these funds on an activity other than an activity funded under an open grant, then you must prepare a PI Reuse Plan for local and Department approval. A sample Reuse Plan is included at the end of this Chapter. PI Reuse Plans are usually submitted to the Department each year in order to clear special conditions associated with new CDBG grant agreements, but new or revised plans may be submitted at any time for review and approval.

The State Review Process for PI Reuse Plans

Once you have drafted the PI Reuse Plan, we suggest that you submit it to the Department for preliminary review. After the local governing body adopts the PI Reuse Plan, submit a final copy of the adopted plan, along with documentation showing that a properly noticed citizen participation public hearing was held, and a certified resolution, to the Department for review and approval.

The State CDBG program reviews these documents to ensure that PI will be used for CDBG-eligible activities and that CDBG eligibility, national objectives, and federal overlay requirements (environmental, labor standards, procurement, equal opportunity, Section 3, etc.) are met.

When you need to amend the Reuse Plan, follow the same process described above and submit the same documents to the Department for review and approval.

The Components of a PI Reuse Plan

Please refer to the Reuse Plan Checklist and Sample PI Reuse Plan at the end of this chapter for the PI Reuse Plan components.

PI Reports

At the end of each of the first three quarters of the July 1 to June 30 fiscal year, and at the end of each fiscal year, you will report on the CDBG Program Revenue (PR), PI expenditures, and PI account balances, regardless of whether or not your total PR exceeds the $25,000 annual threshold (also see Page 14-10, and Chapter 10).

QUESTIONS AND ANSWERS

Do Federal Overlays Apply to PI Projects?

Yes, ***all*** federal regulatory overlays, including environmental, citizen participation, and labor standards, apply to each activity funded with PI.

For example, if PI is being used to fund a construction activity, then the jurisdiction needs to comply with the labor standards compliance procedures specified in Chapter 5. The same is true for environmental review procedures and the jurisdiction should submit environmental review documentation to the State CDBG program for review and clearance prior to incurring costs or expending funds for a PI-funded activity. Environmental review procedures are described in Chapter 3.

Do the New Lead-Based Paint (LBP) Requirements Apply to PI Projects?

The new lead-based paint regulations apply to program income activities when a grantee has received an award letter dated 9/15/00 (or later) for an activity requiring the implementation of the new regulations (e.g. housing rehabilitation and housing acquisition).

Note: Implementation of the new LBP regulations was delayed until 1/10/02. A grantee receiving an award letter dated 9/15/00 (or later) was not required to implement the new regulations until 1/10/02.

What Activities Can Be Funded with PI?

Any activity ***eligible*** under the CDBG program that meets a ***national objective*** can be funded with PI.

Can PI Be Retained Each Year?

As a rule, PI must be substantially expended by the end of the program year. The Annual Program Income Report will be reviewed to determine if the jurisdiction is carrying over excessive amounts of PI from one fiscal year to the next. The Department will also use Quarterly PI Reports to track PI balances. The Department may prevent jurisdictions from applying for additional (new) funding until they have reduced PI balances to acceptable levels.

While there is no specific dollar amount that is deemed excessive to be retained, the Department's guideline is that PI on hand at the end of the Program Year should not, in general, exceed the cost of funding one typical project for each RLA activity, plus sufficient funds to cover associated administrative expenses.

What Does "Substantially Revolving" Mean?

Substantially revolving is defined as the use of at least 51 percent of the funds in an RLA for loans, which will be repaid to the fund. A limited portion of a housing rehabilitation RLA, for instance, may be used for housing rehabilitation related grants and for activity delivery costs. Activity delivery costs must be reasonable and if these costs exceed the costs typically charged for implementing State CDBG programs, (e.g., 19 percent for housing rehabilitation programs, 10 percent for economic development loan programs), then these cost should be justified by the jurisdiction.

What are the Requirements of Funding and Disbursing an RLA?

An RLA must be substantially disbursed before additional cash withdrawals are made from the Department for an open grant activity, which is the ***same*** as that for which the RLA was created.

Note that if the activity of an RLA *differs* from that of an open CDBG-funded grant, the two activities would not necessarily be defined as the same activity, and the above restriction does not apply. Funds may be drawn down under the open CDBG grant without first expending the PI in the RLAs.

Examples:

- A housing rehabilitation RLA established for a narrowly defined purpose such as emergency repairs or for target area ABC would differ from an open grant activity for target area XYZ.
- Similarly, an RLA set-up to make micro-loans to micro-enterprises for the purpose of creating self-employment

opportunities would differ from an open Enterprise Fund grant making larger loans to larger businesses.

A jurisdiction may establish as many RLAs as it chooses in its Reuse Plan, and PI generated by one activity (e.g., economic development) may be placed into an RLA created for another activity (e.g., housing rehabilitation).

What Administrative Costs are Allowed?

Cap on general administrative costs charged to Program Income:

The total PI expended for general administrative costs cannot exceed 18 percent of the jurisdiction's total **PI expended** for all activities in a fiscal year, including PI expended through open grants and through RLAs.

General Administrative Costs for an RLA:

You may charge general administrative costs against an RLA on a per-loan, monthly, semi-annual, quarterly, or fiscal year basis.

General Administrative Costs for PI-Funded Activity Amended into an Open Grant:

Same as above.

Planning Activities:

The costs of planning activities and studies, including match for State P/TA grants, may be paid for with PI only within the 18 percent general administrative cost limit, and if being paid for with RLA funds, the planning activity or study must be related to the specific RLA activity.

***Activity Delivery Costs for an RLA*:**

Activity delivery costs must be reasonable, and the total non-revolving uses (i.e., general administrative costs, grants, and activity delivery costs) cannot exceed 49 percent of PI funds expended during the fiscal year.

Activity Delivery Costs for a PI-Funded Activity Amended into an Open Grant

Activity delivery costs for an activity amended into an open grant are allowed at the same percentage rate as would be allowed for that particular activity under a new open grant. Ask your ED or General Allocation Representative for guidance if necessary.

Costs of Collection of Program Revenue:
The actual costs of collecting the loan payments can be netted out of program revenue for the purpose of determining the amount of program income received. Costs of managing the loans, such as: income recertification; project/unit maintenance inspections; tracking/ensuring hazard insurance coverage; answering borrower questions; etc., are not considered costs of collection, so cannot be netted out of program revenue to determine the amount of PI. However, such loan portfolio management costs may be expended out of program income and charged to PI general administration, as above.

What are the Program Income Accounting Requirements?

You are responsible for maintaining accounting records for PI, which adequately identify the source(s) and use(s) of PI. These records must contain information pertaining to all grant or sub-grant awards of PI and all authorizations, obligations, un-obligated balances, liabilities, outlays of expenditures, and income.

You must demonstrate, through State program and fiscal monitoring, and your annual single audit, that you have effective control and accountability for PI. You must also ensure that PI is being used solely for authorized purposes and that you exercise sufficient control to assure compliance with applicable CDBG program requirements and performance goals, and that activities are being carried out on a timely basis and within budget. The use of PI must be reported in the required audit (see Chapter 11).

The following narrative describes the basic PI accounting requirements needed to meet Federal and State standards:

- When PI is initially received, it must be accounted for by the CDBG grant that it was earned from. This will allow you to track the amount of PI earned by each grant. Note that once the PI is disbursed into an RLA, it no longer has to be tracked by source grant, just in total.

- Although not required, it is strongly suggested that a separate bank account be established for PI. This will prevent the confusion and trouble of determining how much interest income should be classified as PI when funds are commingled in a single bank account.

- Once the proper accounts have been established, it is then essential that the accounting procedures and internal controls be adequate to assure that all PI is properly recognized. This, in part, requires you to establish a system, which will anticipate repayments of loans and take appropriate actions when loan repayments are delinquent. At a minimum, your accounting procedures and internal controls should:

- assure collection of all program income due to the recipient (e.g., loan payments);
- assure that all funds received are accurately classified and coded to the accounts to be credited;
- safeguard and prevent the misappropriation of funds;
- assure that funds are immediately deposited into the proper bank account; and,
- assure that, except in the case of a revolving account, PI funds are disbursed before requesting additional grant funds when using PI for the same activity as an open grant.

What Are the Program Income Reporting Requirements?

Summarize all of your jurisdiction's PR, PI expenditures, and PI balances on one Quarterly or Annual Program Income Report per reporting period. See Chapter 10 for details.

All accomplishments achieved through the expenditure of PI must be reported on an Annual Grantee Performance Report (GPR). Accomplishments resulting from the expenditure of PI through RLAs are normally reported on an RLA GPR. However, when RLA funds are spent on the same activity as an open grant the accomplishments may be reported on the GPR for the open grant instead of on an RLA GPR. All GPRs are due by August 15th of each year.

Use of PI for open grants, whether spent on the same activity as the grant or for a different activity amended into the grant, must also be reported on the relevant quarterly Financial and Accomplishment Reports (FAR) for the grant.

See Chapter 10 "Reporting" for the forms, instructions, and deadlines.

CONCLUSIONS

Problems with Using Program Income

Inadequate financial records of receipt and expenditure of program and miscellaneous income.

Inadequate financial reporting of program outcomes and revolving loan accounts in the annual Grantee Performance Report.

Inadequate Grantee monitoring and oversight of subrecipients/contractors administering PI reuse accounts for jurisdictions.

Retaining excessive amounts of program income on hand.

Spending in excess of the allowable percentages for general administration and activity delivery.

Spending more funds from an RLA on non-revolving activities than on revolving activities.

Failure to obtain Department of approval of overlay compliance before proceeding with an activity or project, especially NEPA environmental review. Failure to obtain the Department's clearance can lead to project ineligibility and performance consequences on future CDBG applications.

What is the Department's Role in Program Income?

Program and fiscal staff will review the Program Income Reuse Plan and the Quarterly and Annual PI Reports, and will also monitor the use of PI reported on Cash Requests and FARs.

Program staff may assist jurisdictions in developing RLA program guidelines and procedures that ensure compliance with CDBG program requirements.

Program staff will monitor your PI-funded projects in the same way that they monitor your open grants.

Program staff will respond to jurisdictions' requests to clear environmental and other overlay requirements prior to the use of PI on every activity or project, as applicable. All PI-funded activities trigger compliance with federal requirements, and Department approval must be obtained before proceeding with a PI funded activity.

Fiscal staff may assist jurisdictions with developing fiscal record keeping systems that meet CDBG requirements.

Reference Materials

CFR 570.489(e) and (f): Defines program income and criteria for establishing revolving loan accounts at the local level.

CFR 570.500 and 570.504: Specify conditions under which a grantee can retain program income and the requirements for disbursing program income prior to drawing down funds under an open grant.

Supporting Materials

- Program Income (PI) Reuse Plan Checklist
- Sample Program Income Reuse Plan
- Also see report forms in Chapter 10

PROGRAM INCOME (PI) REUSE PLAN CHECKLIST

The purpose of this checklist is to ensure that jurisdictions receiving income from State CDBG-assisted activities adequately govern the reuse of those funds. The Reuse Plan should specifically address the following items:

	REUSE PLAN ITEMS
	1. A definition of "program income." Include a provision that if total income received in single program year (PY - July 1 thru June 30) is less than $25,000, then the income is not considered PI. (Note that the jurisdiction must still submit Quarterly and Annual Program Income Reports. See checklist item 11.) Specify costs that are incidental to the generation of PI may be deducted from gross income to determine PI.
	2. Specify that no more than 18 percent of funds **expended** for all combined PI activities during the PY shall be expended for general administration activities.
	3. Specify that if the activities funded under the RLA are for the same activities as those funded under an open State CDBG grant agreement, then the RLA funds shall be expended for this activity before drawing down funds under the open grant.
	4. Specify that activities funded under the RLAs are subject to all CDBG eligibility and national objective requirements such as principally benefiting (at least 51 percent) low and moderate income households/families, eliminating or preventing slum or blighted conditions, or meeting an urgent need).
	5. Specify that the Reuse Plan shall be adopted by the local governing body after the local citizens have had an opportunity to comment on the Plan per Federal Regulations at 24 CFR 570.486, Local Government Requirements.
	6. Specify how program income will be distributed among revolving loan accounts (RLAs), e.g., 50 percent to housing rehabilitation RLA and 50 percent to business RLA.
	7. Specify that the jurisdiction is subject to State CDBG reporting requirements, (i.e., an annual GPR for each RLA and the Quarterly and Annual Program Income Report forms that report on Program Revenue, PI expenditures, and PI account balances, including RLAs).
	8. Specify that any activity funded with program income must comply with all applicable Federal and State "overlay" requirements, including: Citizen Participation; Environmental review under NEPA; Labor Standards; Equal Opportunity and Section 3; Procurement; Acquisition and Relocation; Accounting and Recordkeeping; Lead-based Paint, and that written Department approval will be obtained before proceeding with each PI-funded activity.
	9. Specify that the PI received by the RLA during the PY shall be substantially expended by the end of the PY. The RLA shall not maintain a funding balance that exceeds the amount needed to fund a single project and its related administrative costs. (For example, a housing rehabilitation RLA should not carry a balance that exceeds the typical cost to rehabilitate a home in that jurisdiction, plus related project/program administration costs.)
	10. Specify the single CDBG-eligible activity that will be funded under each RLA, including anything that will be funded as non-revolving (e.g., percent of funds for activity delivery costs; grants for rehabilitation; grants for infrastructure in support of business expansion projects, etc.).
	11. Specify that RLA funds must substantially revolve, i.e., that at least 51 percent of funds expended during the program year (PY) shall be expended for loan (revolving) activities.
	12. Specify that no more than 49 percent of funds **expended** under the RLA during the PY shall be expended for non-revolving activities, including: General administration costs, activity delivery costs, and grants.

SAMPLE

PROGRAM INCOME REUSE PLAN

City/County of___________________________ Date of this Plan_________________

A Reuse Plan Governing Program Income From CDBG-Assisted Activities

The purpose of plan is to establish guidelines on the policies and procedures for the administration and utilization of program income received as a result of activities funded under the State Community Development Block Grant Program.

Need for Plan Governing Reuse of Program Income. This Reuse Plan is intended to satisfy the requirements specified in Federal statute and regulation at Section 104 (j) of the Housing and Community Development Act ("the Act"), as amended in 1992 and 24 CFR 570.489 (e) (3). These statutory and regulatory sections permit a unit of local government to retain program income for CDBG-eligible community development activities. Under federal guidelines adopted by the State of California's CDBG program, local governments are permitted to retain program income so long as the local government has received advance approval from the state of a local plan that will govern the expenditure of the program income. This plan has been developed to meet that requirement.

Program Income Defined. Program Income is defined in federal regulation at 24 CFR 570.489 (e) which specify that program income is the gross income received by the jurisdiction that has been directly generated from the use of CDBG funds. (For those program income-generating activities that are only partially funded with CDBG funds, such income is prorated to reflect the actual percentage of CDBG participation). Examples of program income include: payments of principal and interest on housing rehabilitation or business loans made using CDBG funds; interest earned on program income pending its disposition, and interest earned on funds that have been placed in a revolving loan account; net proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG funds; income (net of costs that are incidental to the generation of the income) from the use or rental of real property that has been acquired, constructed or improved with CDBG funds and that is owned (in whole or in part) by the participating jurisdiction or subrecipient.

If the total amount of income generated from the use of CDBG funds (and retained by the City/County) during a single program year (July 1 through June 30) is less than $25,000, then these funds shall not be deemed to be program income and shall not be subject to these polices and procedures. However, Quarterly and Annual Program Income Reports must be submitted regardless of whether the $25,000 threshold is reached or not. Costs incurred that are incidental to the generation of Program Income may be deducted from the gross program revenue to determine the net Program Income amount.

General Administration (GA) Cost Limitation. Up to eighteen percent (18%) of the total program income expended on all activities during a single program year may be used for CDBG general administration expenses.

Reuses of Program Income. Program income must be: a) disbursed for an activity funded under an open grant prior to drawing down additional Federal funds; b) forwarded to the State of California, Department of Housing and Community Development (Department); or c) distributed according to this Program Income Reuse Plan that has been approved by the Department. The City's/County's program income will be used to fund *eligible* CDBG activities that meet a *national objective*. Eligible activities and national objective requirements are specified in federal statute at Section 105(a) and in federal regulations at 24 CFR 570.482 and 24 CFR 570.483. ***The Reuse Plan shall specify all proposed uses of these funds and the plan shall be adopted by the local governing body after compliance with the locality's citizen participation process as specified in Federal Regulations at 24 CFR 570.486, Local Government Requirements.***

The City/County reserves the options of utilizing program income to fund/augment a CDBG-eligible activity that is included in a CDBG Program grant agreement; or, to amend an open CDBG grant agreement to include an additional CDBG-eligible activity to be funded from program income. In either case, the City/County must first follow the citizen participation process and obtain approval from the State CDBG Program.

Planning Activities. The City/County reserves the option of utilizing program income, within the 18 percent general administration annual cap, to fund planning for CDBG-eligible activities. Such planning activities may include: cash match for a State CDBG Planning and Technical Assistance Grant; environmental reviews or other studies necessary for CDBG-eligible projects or programs; or application preparation for CDBG or other grants/loans to supplement funding for CDBG-eligible activities. The costs of such planning activities may be charged to an RLA if the planning is for the same activity as the RLA. Otherwise, PI may only be expended on planning activities in conjunction with (written or amended into) an open CDBG grant.

Distribution For Reuse of Program Income. The City's/County's program income will be distributed, as follows:

Two revolving loan accounts (RLAs) are established to utilize the program income.

The allocations to the RLAs are as follows:
a) Fifty percent (50 percent) of all program income will be deposited into the Housing Rehabilitation Revolving Loan Account.
b) Fifty percent (50 percent) of all program income will be deposited into the Business Expansion and Retention Revolving Loan Account.

Funds shall not be transferred between RLAs without conducting a properly noticed CDBG Citizen Participation public hearing. If it becomes necessary to transfer funds between RLAs we will consider revising the above distribution formula.

Reporting and Federal Overlay Compliance.

The City/County shall comply with all State CDBG reporting requirements, including submittal of an annual Grantee Performance Report for each RLA and submittal of the required Quarterly and Annual Program Income Reports, which shows combined receipts from both RLAs on one report (due by August 15). The City/County shall ensure that the use of program income under this Reuse Plan complies with all CDBG program requirements, including citizen participation, environmental review, equal opportunity, lead-based paint, labor standards, procurement and property management, and maintenance of adequate accounting and recordkeeping systems. To ensure ongoing compliance with CDBG requirements, the City/County shall utilize the latest available State CDBG Program Grant Management Manual for guidance on compliance procedures and polices. The City/County shall obtain the Department's written approval before proceeding with any PI-funded activity.

Maximum Funds in Revolving Loan Accounts.

Program Income received by the RLAs during the program year (July 1 through June 30) shall be substantially expended by the end of the program year (June 30). At any given time, the funding balance for either of the RLAs should not exceed the typical cost of a single RLA project, plus reasonable administration costs (up to 18 percent of total expended costs). ***For example, if your average Housing Rehabilitation PI loan cost is $58,000, the balance of your Housing Rehabilitation RLA should not typically exceed this amount. If your average Business Loan cost is $175,000, the balance of your Business Expansion and Retention RLA should not typically exceed this amount.***

Revising this plan. The City Council/Board of Supervisors has the authority to amend this document with a properly noticed Council/Board meeting and approval by the State Department of Housing and Community Development (HCD) to amend an open grant.

Revolving Loan Accounts. The purposes and allowed uses of funds under these RLAs are, as follows:

Housing Rehabilitation Revolving Loan Account.

This fund will be principally used for the purpose of making loans to rehabilitate residential units occupied by households which have an annual income which is 80 percent (80 percent) or less of the county's median income. At least 51 percent of the funds expended for the activity funded under this RLA during the program year shall be used on revolving activities (i.e., loans).

No more than ___ percent of the program income funds expended during the program year under this RLA shall be expended for housing rehabilitation grants. No more than 18 percent of the funds expended from this RLA shall be used for activity delivery costs. No more than eighteen percent (18 percent) of the total amount of PI expended annually may be expended for general administrative costs related to this RLA activity (optional, see page 1). In any event, the total expended for non-revolving activities (grants, activity delivery costs, and general administration) shall not exceed 49 percent of the total funds expended during the program year (July 1 thru June 30).

The review and funding of requests for CDBG loan or grant assistance under this RLA shall be conducted under the Housing Rehabilitation Program Guidelines that have been adopted by the City/County (Attachment A). All assistance provided to activities under this RLA shall be made for activities that are located within the City's/County's jurisdiction.

If the activities funded under the RLA are for the same activities as those funded under an open State CDBG grant agreement, then the funds available in this RLA shall be expended prior to drawing down funds from the State CDBG program.

Business Expansion and Retention RLA.

This fund will be used to provide "gap" financing for businesses that can document the need for CDBG assistance and that will create or retain qualifying permanent jobs that will be principally filled by members of households which have an annual income that is 80 percent or less than the county's median household income, adjusted for size. At least 51 percent of the funds expended for the activity funded under this RLA during the program year shall be used on revolving activities (i.e., loans). No more than _____ percent of the program income funds expended during the program year under this RLA shall be for grants for public infrastructure improvements that are needed to accommodate a specific business expansion or retention project. No more than 10 percent of the total funds expended for business assistance activities shall be used for activity delivery costs. No more than eighteen percent (18 percent) of the total amount pf PI expended annually may be expended for general administrative costs related to this RLA activity (optional – see page 1). In any event, the total expended for non-revolving activities (grants, activity delivery costs, and general administration) shall not exceed 49 percent of the total funds expended during the program year (July 1 thru June 30).

If the activities funded under the RLA are for the same activities as those funded under an open State CDBG grant agreement, then the funds available in this RLA shall be expended prior to drawing down funds from the State CDBG program.

The review and funding of requests for CDBG loan or grant assistance under this RLA shall be conducted under the federal underwriting guidelines specified at 24 CFR 570.482 (e) that have been incorporated into the City's/County's adopted Business Revolving Loan Fund Program Guidelines (Attachment B) and include the project review procedures. These guidelines will ensure that the amount and terms of the CDBG assistance are appropriate given the documented needs of the business and given the amount of public benefit (job creation/retention) that will result from the CDBG-assisted project. In addition, any activity requesting funding under this RLA shall be deemed to be eligible under Section 570.482 and Section 105 (a) of the Act and shall be determined to provide sufficient public benefit as specified under Section 570.482 (f). Any CDBG assistance for infrastructure shall meet the requirements of Section 570.483 (b) (4) (F) which requires ongoing job tracking for all businesses that initially benefit from an infrastructure project as well as any subsequent business(s) benefiting from these improvements. All assistance provided to activities under this RLA shall be made for activities that are located within the City's/County's jurisdiction.